REPORT

OF THE

External Capital Committee

1925

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EXTERNAL CAPITAL COMMITTEE.

REPORT.

PART I.

Introductory.

Terms of Reference. Members and Meetings.

Personnel and terms of reference to the Committee.

1. The terms of reference to the Committee were "*to consider the question of the flow of capital into India from external sources*". The original Members were :—

(1) The Honourable Sir Basil Blackett, K.C.B., *Chairman*.

(2) The Honourable Sir Charles Innes, K.C.S.I., C.I.E.

Elected by the Council of State :—

(3) The Honourable Mr. J. W. A. Bell.

(4) The Honourable Dr. Dwarkanath Mitter.

(5) The Honourable Mr. G. A. Natesan.

Elected by the Legislative Assembly :—

(6) Sir P. S. Sivaswami Iyer, K.C.S.I., C.I.E., M.L.A.

(7) Pandit Madan Mohan Malaviya, M.L.A.

(8) Vithalbhai Javerbhai Patel, Esq., M.L.A.

(9) W. S. J. Willson, Esq., M.L.A.

2. Our first meeting was held at Simla on the 23rd September, 1924, and it was decided that the most practical method of eliciting the information necessary for our deliberations would be the preparation of a questionnaire and its issue to important public bodies and individuals who took an interest in the matter. The general lines of the questionnaire were settled at that meeting and the details adjusted by correspondence.

Terms of questionnaire.

3. The questionnaire was as follows :—

Forms of Capital.

1. What are the different forms in which external capital enters India ?

Encouragement.

2. In which of these cases is the entry either unobjectionable or necessary in the interests of India generally and of Indian industries in particular ?

3. Is it necessary to encourage the entry of any particular variety ?

4. If so, what steps should be taken in this direction and to what extent is capital likely to be forthcoming as the result of such steps ?

Replacement.

5. How far is it possible to replace external by internal capital ?

EXTERNAL CAPITAL COMMITTEE.

REPORT.

SYNOPSIS.

PART I.

Introductory.

Terms of Reference. Members and Meetings.

Paragraphs.

PART II.

Recommendations.

PART III.

Summary of Recommendations.

Supplement.

Minute of dissent by Pandit Madan Mohan Malaviya.

Appendix.

List of associations and individuals who replied to the questionnaire.

6. What measures are necessary for—

(1) the greater attraction of indigenous capital for industrial purposes, and

(2) the development of banking organisation and credit facilities in India ?

Restrictions.

7. What are the forms of external capital the entry of which is objectionable ?

8. What are the objections in each such case ?

9. What restrictions can and should be imposed in each such case ?

10. What would be the effect of any such restriction on the—

(1) industries and development of the country generally,

(2) loan policy of Governments and local bodies, and

(3) holders of investments ?

Differentiation.

11. Is it necessary to differentiate in any respect and, if so, how would you differentiate between :—

(1) British and foreign capital, and

(2) Capital from foreign countries which exercise such discrimination and from those which do not ?

Practice elsewhere.

12. What is the practice in other countries (especially in the British Dominions) in the matter of encouraging or restricting the flow of foreign capital ?

4. The questionnaire was issued on the 18th November 1924 and replies have been received from the chambers, associations, and individuals mentioned in the Appendix. It did not seem necessary to take advantage of the offer of several of the parties who replied to the questionnaire to supplement their replies by oral evidence, as the material provided was adequate to enable us to arrive at conclusions which will fulfil the terms of reference. We would take this opportunity of thanking those who replied to our questions ; the more important suggestions will be mentioned and discussed in the report.

5. As the Committee was composed of members of the Legislature, it was only practicable to hold meetings during the sessions. Sufficient replies had not been received in time to enable us to hold a meeting during the cold weather session of 1925. Our meetings were therefore postponed until the August and September Session in 1925. In the meantime the Honourable Mr. J. W. A. Bell, Mr. W. S. J. Willson and Mr. V. J. Patel had resigned. The Council of State and the Legislative Assembly elected the following members in their places—

The Council of State—The Honourable Sir William Currie, Kt.

The Legislative Assembly—Messrs. C. B. Chartres and T. C. Goswami.

PART II.

Recommendations.

Amount of external capital in India.

6. We have not attempted to estimate the amount of external capital in India. Any such calculation must be largely guess-work, though a certain amount of statistical material is available. Government returns show the amount of the outstanding loans of the central and provincial Governments and of municipalities, and the authorities of the various ports have given us details of their borrowings. It would no doubt be safe to assume that the sterling portion of these and the London-enfaced rupee debt of the Government of India are held almost entirely by external investors, but it would be quite impossible to determine the proportion of the rupee loans not held by Indians. The return of Joint Stock Companies in British India also gives figures showing the total capital of companies incorporated elsewhere than in India but working in India, but an examination of the various companies figuring in the list shows that in many cases, especially those of banks, insurance and navigation companies, it would be unfair to reckon more than a small percentage of the working capital as actually employed in India. There is also the undoubted fact that Indians hold a large and increasing share both in external companies and in companies with rupee capital under non-Indian management. It is well known that a majority of the shares in Indian jute mill companies, which are almost entirely under such management, are held by Indians. Besides, we do not think that any practical purpose would be served by an attempt to estimate the amount of external capital operating in India. Such calculations would only be of importance if it was decided to introduce a definite programme of replacement, as suggested in some of the replies. For this purpose the nominal value would be useless, the actual market value would have to be ascertained and this fluctuates daily. In any case, we consider any definite programme of replacement completely impracticable.

7. If a general survey of the position were considered desirable with the object of ascertaining the real extent of the problem before us, it would also only be fair to take into consideration companies which had failed, as India retains not only the value of the assets left in the country, but the negative advantage that certain experiments have been proved to be failures. For instance, it is obvious that if an external company spends money without success in sinking oil wells or in prospecting for minerals, indigenous capital has been saved from the risk of fruitless expenditure. This aspect of the question has been vividly put by Professor B. Mukerjee :—"British capital has helped India in several other ways not easily realised because they do not lie in the surface. We all welcome the increasing share of Indians in our industries. We are proud of those Indians who prosper in these lines. We are happy when they succeed. But it must be admitted that part of the reason why they succeed so well lies in the fact that the field for them had been cleared long ago by British capitalists. The losses of pioneer industrialism in this country were borne by them. The greater part of the capital which they invested did not become fully remunerative until after long years of strenuous

waiting and work. The huge profits which these capitalists make—Sir George Paish puts it at £16 millions per annum—are seen; but the losses which they had to bear are not seen and are thus generally ignored. These initial losses are inevitable when a country is first sought to be developed. And these losses the British Capitalists had to bear. But once the country is developed—as it is now—once railways and steamers are built, markets are established, demand is stimulated and created, population has increased, labouring class is created and trained—all those who handle industries later on get the benefit of this development without being called upon to pay any price for it. Indian Capital which is now for the first time financing industries has avoided all these initial costs of development. It has also escaped a good deal of such initial industrial losses. It is easier for the Indians to succeed than would have been the case if the British pioneers had not lost. England has still a vast amount of her money invested abroad on which she still gets no interest at all."

Replacement of external by internal capital.

8. As a general principle, the inflow of external capital is not only unobjectionable in itself but is a valuable factor in assisting the economic development of a country and in increasing its wealth and employment. It is however even more advantageous that its requirements for new capital should be supplied from internal sources so far as internal capital is forthcoming. Ordinarily countries so far from attempting to discriminate against or to penalise the external capitalist do all they can to encourage the flow of capital. Striking evidence has been furnished to us in the replies of the efforts made by other parts of the British Empire to attract outside capital. Conditions in India are to a certain extent dissimilar, as India already possesses a large store of potential capital, but much of it is unproductively locked up in bullion and jewellery. As a general principle we should like to emphasise that the real solution of the problem lies in the encouragement of the Indian investor and the development of India's internal capital resources. There will be a certain amount of replacement of external by internal capital in any case by natural process, as external shareholders, in the words of Dr. Slater, " tend to get rid of their Indian investments in competitive industry when they leave the country, or at some subsequent date, sooner or later." It is recognised in practically all the replies that there is sufficient potential capital in India to meet the larger part of India's industrial requirements, but that it is timid, conservative and requires to be drawn out. That internal capital is available is shown by the increase in Government rupee loans from 145 to 358 crores, and in the paid-up capital of joint stock companies from 80 to 254 crores, between 1913-14 and 1923-24, an increase of 387 crores. The fact, however, that the net imports of gold and silver since 1913 amount to 482 crores is evidence that large resources are still being hoarded which might be invested.

Development of credit and investment facilities.

9. Many suggestions have been received by us for the development of the internal capital of the country, but they are generally of a technical character and would require detailed expert examination before any opinion could be offered as to their practicability.

Considerable progress has been effected by the creation of the Imperial Bank and the opening of new branches, and by the measures taken by Government to popularise its loans and cash certificates, but we think that more intensive action is desirable. Co-ordination is required and a general survey should be undertaken to show what the position actually is and in what fields further progress can be effected. We do not consider ourselves competent to undertake this survey, and the suggestions made to us and the considerations which have occurred to us during our discussions may not cover the entire field. We indicate the more salient points, however, in order to illustrate both the complexity of the subject and the desirability of its investigation.

10. The first essential is to increase the facilities for deposit and investment, and this entails both the creation of new branches of the Imperial Bank and the extension of the activities of existing banks and the formation of new banks. These latter are a matter for private enterprise, and, as regards the former, though in view of the recent rapid extension of the Imperial Bank the ground acquired will have to be consolidated before a further advance becomes possible, a comprehensive inquiry might be instituted to ascertain the localities in which such extensions and the creation of clearing houses would offer prospects of success. The indigenous banking system should also be examined to ascertain how far it may be possible to fit it into a modern system of banking. It is universally admitted that the indigenous system is in itself incapable of development to an extent that would satisfy the banking requirements of the country. At the same time, it fulfils valuable functions in affording credit facilities and it will be required to fulfil them for a long time to come. Every endeavour should therefore be made to utilise it and to fit it into the modern banking system which is being developed in rural areas.

11. There is a marked trend of opinion in many of the replies that Government should take a more active part in watching over the development of banks. Professor Stanley Jevons is "of opinion that the development of banking organisation in India would be greatly stimulated if the Government of India would undertake the inspection of joint stock banks, to see that proper practices are being observed, and particularly to detect transactions detrimental to the interests of depositors and share-holders at an early stage, and by fear of detection to prevent them". He is followed by Dr. Gilbert Slater, who is also in favour of the examination of the suggestion that there should be a department for the registration and inspection of limited liability companies with a competent staff of auditors and powers to detect and penalise fraud. Sir P. C. Mitter suggests that small banks might be enabled to apply to local Governments to get their accounts audited at least six monthly by approved auditors, that their cash should be examined periodically by a Government officer, and that they should be supervised by statutory provincial committees with a whole-time staff under them. We do not presume to make a definite recommendation on a complicated technical question on which we realise that there is much to be said on both sides, and in which the last word should lie with the expert. We are not unmindful of the general objection to such proposals, that the best basis for sound and permanent advance lies in competition, publicity, and

the encouragement of private enterprise, and that they might lead to the creation of banks and companies with directors who were not fitted for the responsibilities of their position and whose incompetence would be presumed to be safeguarded by detailed Government control.

Banking education.

12. We are convinced that the true solution will be found in the provision of a comprehensive scheme of banking education, which will furnish an adequate supply of Indian bankers, trained on sound and modern lines. This would be another useful field of enquiry, on which the opinions of an expert committee might be of utility. It is obviously the most important question of all. One of the first points for consideration is how practical and theoretical training may be combined, and it is most desirable that an all-India Institute of Bankers should be created to supervise courses of instruction. The possibility of the selection of the abler students for practical instruction abroad could also be considered. In this way the development of banks on sound lines would be encouraged. Parenthetically, we would also suggest that the formation of an all-India Institute of Chartered Accountants would appear to provide a means of meeting the suggestion of Dr. Slater referred to in the preceding paragraph. We do not wish to go into further detail on the subject of banking education beyond emphasizing its importance, but we feel that its investigation would lead to useful results.

Investment facilities.

13. In addition to the creation of banks for the receipt of deposits, and the encouragement of small deposits by Post Office cash certificates and the saving bank schemes of the Post Office and the Imperial Bank, increased facilities for investment are also required. As fresh capital must, if progress is to be healthy, be attracted first into investments in which safety is the primary consideration, dealings in government securities should be encouraged, as they possess this quality in the highest degree. If Public Debt Office facilities could be extended to the more important commercial centres outside the Presidency towns, so that all transactions in government securities could be effected locally, local markets would be created for these securities and local stock broking would be encouraged. Stock exchanges would then form naturally and lead to dealings in industrial debentures and ordinary shares. The wider advertisement of state loans in vernacular is a suggestion which might also be examined. We do not know to what extent an advance on these lines is immediately practicable, but we consider that the creation of more money markets throughout India constituted on modern lines would be a factor of such importance in India's financial development that we would recommend the question to the careful consideration of Government.

Credit facilities.

14. The increase of credit facilities on thoroughly sound lines is a matter of no less importance. Necessary safeguards against the dangers inherent in artificial facilities should of course be provided, but there is scope for material improvement in the machinery for the provision of credit. At present miscellaneous credit facilities are afforded to agriculture, either direct by Government or under Government control,

by means of takavi advances and through the provincial co-operative banks, and many schemes have been suggested for the extension of long-term credit to industries either by direct Government assistance or through land and industrial banks. These all appear to us to require co-ordinated examination, especially those relating to agricultural credit, so that they may be woven into the fabric of a general banking system.

Negotiable Instruments.

15. It is also worth examining whether the produce of industry and agriculture could be financed by negotiable instruments to a greater extent than at present. Mr. B. F. Madon in his reply has alluded to the desirability of developing trade acceptances and facilities for discounting them :—" The public should be trained to create such real trade bills, the local bankers should be made to see the advantages of discounting such bills and the Imperial Bank should be ready to re-discount them ". It seems to us that there could very usefully be an enquiry into the various forms of negotiable instruments circulating in India, with a view to the development of those which were found to be the most suitable. The matter is complicated by the multiplicity of scripts in India. In this connection we would add that the problem of enabling Indians who are only acquainted with vernacular scripts to avail themselves of banking facilities is a general one which appears to us to be of importance and to require early examination. Various devices, some of doubtful practicability, have been suggested to us but there can be no doubt that, whatever the reason may be, negotiable instruments do not take their proper part in the financing of Indian trade, and a general enquiry by legal and banking experts might throw useful light on the subject, and suggest possible remedies.

Comprehensive survey suggested.

16. This is a very cursory survey of the suggestions we have received in reply to our question regarding the development of banking organisation and credit facilities in India. We are not in a position to examine the suggestions in detail or to offer an opinion on them, but we consider that they should be examined as early as practicable. The method of the examination we would leave to Government, the points at issue being too numerous and too technical for us to make any more definite recommendations. We are of opinion, however, that the first step required is the collection of accurate and up-to-date information of the progress so far made and a comprehensive survey of the whole field, which we suggest should be undertaken by Government without delay. Such a general survey would at any rate serve to focus public attention on these most important subjects, and would enable Government to determine the questions a detailed examination of which by experts would be most likely to lead to fruitful results. We are satisfied that the preliminary survey must be followed up by a detailed enquiry, but the field is so large that we leave it open whether this detailed enquiry should be entrusted to one or more committees.

CONTROL OF EXTERNAL CAPITAL.

Objections to external capital.

17. The objections to external capital have been stated to be :—

(*a*) A certain proportion of the profits will go out of the country.

(*b*) Investors will always prefer to choose their own directorate, and will naturally prefer men they know and have a prejudice in favour of their own nationality. The tendency will be the same in respect of the superior staff.

(*c*) The vested interests created by external capital have a tendency to acquire enormous political influence which is usually exercised for the purpose of maintaining the status quo and of vigorously resisting any political progress.

(*d*) External capital may monopolise 'key' industries or industries important from the point of view of national defence, and

(*e*) External capital may exploit the natural and irreplaceable resources of the country such as minerals.

18. These are the more important objections which have been made to us and in discussing the question of imposing restrictions on external capital, we would distinguish between the different forms in which it enters India, according to the extent to which it carries with it control over Indian industrial organisation and Indian natural resources. This was the criterion suggested by Dr. Gilbert Slater in his reply and following generally his classification we may divide external capital from this point of view into three categories :—

(1) Investments in which the external investor is merely entitled to a rate of interest and acquires rights of control only when there is default. To this class belong state and municipal loans, bonds of port authorities, bonds and debentures of private companies and bank loans.

(2) Investments in which the external investor enters into competitive business in India, competing on equal terms with Indian enterprise, as in the case of cotton and other textile mills, mercantile houses and the like.

(3) Investments in which the external capitalist acquires special privileges or concessions of land which give him exclusive possession or exclusive rights of exploitation of particular portions of the natural resources of India.

Where the external investor is entitled to a stipulated rate of interest only.

19. As regards the first class, we agree with Dr. Slater "that it has been largely necessary in the past and is on the whole unobjectionable in the present". He continues "As no foreign control enters into the question, the main matters for consideration are :—

(1) can a new asset be created by means of an external loan which will yield a net annual return, directly or indirectly, to the people of India exceeding the stipulated rate of interest ? and

(2) can the money be borrowed abroad on the whole to greater advantage than in India ?

If both of these questions are answered in the affirmative, obviously the use of external capital is advantageous.'' The first class, so far from being disadvantageous is generally useful and profitable to India and no control is necessary. In the case of Government and quasi-Government loans, however, the rate of interest should not be the sole consideration between an external and an internal loan, and the exchange position must always be allowed due weight. If the money can be raised in India without unduly prejudicing the efforts that may be made at the time for securing Indian capital for other useful enterprises in India, and if the difference between the rates of interest is not excessive, resort should be had to rupee loans in India rather than to external loans. It is important that habits of saving and investment should be fostered, and government scrip and well-secured bonds, being good security for bank overdrafts, supply industry with a means of obtaining capital. In short external capital may be advantageously used to supplement internal capital, but should not be allowed to prejudice its legitimate opportunities. This has been generally admitted in the replies, but this category does not cover the most important forms of external investment in India and those on which attention has been most strongly focussed.

Where the external investor enters into ordinary competitive business in India.

20. It would be quite impossible to confine the inflow of external capital to the first category and normally investments will be on a speculative and profit sharing basis in which the shareholders will insist on exercising control, that is to say, will come within the second and third classes. The consideration of these two classes is complicated by the fact that apart from specifically protective duties or bounties, India's general tariff, though framed for purposes of revenue and not protection, has been raised to a level where it does afford a varying degree of protection to every industry of any importance. It has been suggested that the surplus profit granted to the external capitalist by governmental action at the cost of the country should be taken from him in taxation or at least expended in some manner directly profitable to India. This question was discussed at length by the Fiscal Commission in chapter XV of their report. They argued that as protection inevitably increased the burden to the consumer, it was desirable that this burden should be terminated as soon as possible, and that as protection by itself could not increase the capital in the country, the additions must come from outside. They therefore considered it desirable to widen the field of investment to the utmost and to attract capital from outside, so that industry might be developed as rapidly as possible and the burden to the consumer terminated. On the other hand they allowed that " where Government grants anything in the nature of a monopoly or a concession, where public money is given to a company in the form of any kind of subsidy or bounty, or where a licence is granted to act as a public utility company, it is reasonable that Government should make certain stipulations ", and " lay special stress on the Indian character of the companies thus formed ". There is some inconsistency in this which attracted the attention of the members who wrote the minute

of dissent : "we are unable to appreciate the distinction drawn between companies getting Government concessions and companies establishing themselves behind the tariff wall erected under a policy of protection. We can understand such a distinction under a policy of free trade". Bounties and protective tariffs are two means of attaining the same end, the fostering of industries in India, and if external capital should be controlled in the one case, it would appear to be equally desirable to control it in the other.

21. Government having accepted the proposition in paragraph 292 of the Report, quoted in the preceding paragraph, we have to consider what stipulations can be imposed which will not have injurious repercussions on the industry or the country as a whole. The problem must be approached on practical lines, and after careful consideration of the various devices suggested for imposing such control, we have come to the conclusion that, except when definite concessions are granted to individual concerns, restrictive measures would be either impracticable or disproportionately injurious to the Indian investor. Where a bounty or definite concession is being granted to a particular company, it is certainly practicable to impose any restrictions desired in return for the concession, but where a general tariff is imposed, and any concern operating in the country will derive benefit from it without the necessity of approaching Government for any special concession at all, no practical method has been suggested to us whereby discrimination could be effected. Numerous suggestions have been made to us. The most general is that new companies should be registered in India with rupee capital, and that a proportion of the shares sufficient to establish Indian control should be definitely reserved to Indian investors. A less extreme suggestion is that this proportion should be reserved to Indian subscribers in all new flotations for a definite period of time. If after that period Indians had not subscribed their share, the company would be enabled to acquire the remaining capital where it could. Other suggestions are that a definite number of the directorate should be Indian, that facilities should be afforded for the training of Indian apprentices and that penal taxation should be imposed on companies which did not comply with these conditions.

22. The general difficulties in the way of these suggestions are obvious. In the first place they could only be applied to new companies, and it might in many cases be difficult to prevent a big manufacturing concern with a small trading agency in the country taking advantage of such an agency to claim the privileges of an existing company. They would also require a very elaborate system of trade licensing and the most inquisitorial government control. Besides, as pointed out by the Fiscal Commission, a most unfair and undesirable distinction would be created between private and joint stock concerns and it is to the interest of the country to develop the latter. Many new enterprises are started privately and if they are successful it is desirable to encourage them to develop into limited liability companies, as this will give the best opportunity to the Indian investor to purchase shares in the open market and to acquire such control as he desires. It would be quite impossible to ascertain the amount of external capital in private concerns, so that they would

be able almost completely to evade any restrictions imposed. The existence of such restrictions would thus only tend to prevent their development into joint stock companies.

23. It would also be as well to make it clear that the object of such control, as stated by the Fiscal Commission, is to lay stress on the Indian character of the favoured companies and not to secure an artificially high rate of interest to the Indian capitalist. Though the latter could possibly be secured in a protected industry by the elimination of outside capital, we hold strongly that as a general principle the proposition that preferential terms should be secured by statute to the Indian investor is short sighted and involves an economic fallacy. The interests of the Indian investor will best be served by giving him the widest freedom of choice as to the character of his investments and the most open market in which to sell them when he so desires. It should be emphasized that the real criterion of the value of a stock is not only its dividend but also its marketability. A capitalist will require a much higher rate of interest if he does not feel confident that he can realise his principal when he wishes, and any measure which limits the number or the resources of potential purchasers will reduce the value of his holding. Restrictions on the transfer of shares from Indians to non-Indians might possibly increase the yield on the shares of companies in protected industries by limiting the amount of capital in the industry, and thus lessening competition, but this would be largely counterbalanced by their lower sale value. As the entire additional cost would fall on the Indian consumer, the loss to the country would be entirely out of proportion to the gain to the capitalist. Besides, there is the practical difficulty that such restrictions would be almost impossible to enforce. We do not wish to dwell on this at any length as we feel convinced that after consideration of the various factors involved "no one," in the words of the Fiscal Commission, "would advocate a policy of protection merely to enrich capitalists".

24. In addition to these general considerations, there are grave practical objections against each of the various suggestions. Restrictions on the transferability of shares could be evaded by the large capitalist and would only penalise the small investor, both Indian and non-Indian, by increasing the difficulty of finding purchasers, for which brokers would naturally also charge an enhanced commission. They would also involve an intolerable amount of government control and interference with industry. Very limited parallels have been quoted from other countries. In Japan, the shares in certain banks and railways which are controlled by Government can apparently only be transferred with the consent of Government, but it is obviously impossible to extend an analogy like this to cover every industrial activity in a large country like India. Our objection to a statutory minimum of directors is based on the right of share-holders under ordinary circumstances to have an unfettered control over their own directorate, and the principle that it would be unbusiness like and uneconomic to compel companies to labour under a proportion of directors whose business qualifications were only a secondary consideration. In the words of the Burma Chamber of Commerce :—"capital demands the choice of its own directorate, failing which its cost

will be raised or its supply entirely withheld." As regards apprentices, too, it would be quite impossible to lay down general conditions which would cover the infinite variety of cases involved.

25. We do not understand what valuable purpose would be served by keeping subscription lists open to Indians for a prolonged period (six months has been suggested), if Indian subscribers were subsequently to be allowed to sell the shares allotted to them in the open market without restriction. Indian organisations which chose to underwrite the issues might obtain an enhanced commission, for which the industry would have to pay, and the delay caused to a company before it could get to work would be most injurious. The effects on the ultimate control of the company would be negligible, while it would be difficult to calculate the dislocation to the commercial machinery of the country that would be created by a general provision in the Indian Companies Act that share lists might in certain circumstances have to remain open for six months before a company could proceed to allotment. A more feasible suggestion has been made, which would at any rate avoid the intolerable delays of the previous proposals, that in the event of a list being over-subscribed, Indians might receive on allotment the total amount of their applications up to 50 per cent., of the total issue. This would avoid delay but is inadvisable on general grounds. It would be very difficult for the directors of the company or the Government officer who had to scrutinise the lists to ascertain in the case of applications of firms or companies whether they came within the classification of Indian or not. It would also be a simple matter for non-Indian investors to arrange for their applications to go through an Indian. Such measures might deter the small external investor but it would be a very simple matter for the larger capitalist to get round them by employing an Indian agency, the net result being that India would have to pay more for its capital by the amount of the commission to be paid to the agent. Our colleague Pandit Madan Mohan Malaviya, who has recorded his dissent to this conclusion in a separate note, holds that, even though the ultimate effect might be small, it should be a condition in all cases in which shares are offered by public companies in India that the subscription lists should be kept open for a minimum period of 30 days, and that preference should be given to Indian subscribers up to 50 per cent. of the amount of shares offered. He recognises that the further step of preventing transfers thereafter from Indians to non-Indians cannot be recommended but he holds that even without this further condition there would be some residuum of additional Indian holdings as the result of the imposition of the special condition regarding original subscribers.

26. Penal taxation, also, would be almost impossible to assess. It would be incorrect to assume that the whole of the customs duties or the protective tariffs or bounties constituted the net surplus of the home manufacturer as against the outsider, as production in India in certain industries is admittedly more expensive than it is in the competing countries. In a theoretically perfect protective system the net surplus would be nil, the tariff being framed to meet the extra-cost of production. In any case, such taxation would be un-economic as the cost of assessment and collection would almost certainly exceed the revenue produced.

All these nebulous suggestions for penal taxation or licences suffer from the same defect. As the entry of external capital into India is at present determined by free market conditions, there is not, as is crudely supposed by some, a definite amount of external capital which must find investment in India, whatever the return India may choose to give it. The world supply of capital has been materially diminished by the war, and the demand for it is keen. There is also evidence that in recent years there has been a definite tendency for external capital to become increasingly shy of seeking outlets in India. Discriminatory taxation would have a far wider influence in restricting the flow of future capital into India than its mere pecuniary effects. There would be the fear of future developments on the same lines, and as the largest amount of external capital which comes into India at present is probably the re-investment of past profits and the replacement of the depreciation of previously invested capital, the former would be removed and the latter neglected for a higher immediate return. Nothing could be more disastrous to the industrial development of India than measures which would scare away the external capital invested in it or prevent the local investment of its profits.

Where definite concessions are granted to the external investor.

27. Where, however, definite concessions are granted to particular concerns, it is obvious that stipulations to safeguard Indian interests can be imposed without any practical difficulty, so long as the stipulations themselves are reasonable. We would therefore agree with the view of the Fiscal Commission and the Legislature that definite restrictions might be imposed in the case of concessions receiving bounties or similar definite pecuniary assistance. This brings us to the third class of external capital in our classification, in which the external investor acquires special concessions of land or privileges.

We would divide this class into two :—

(1) where the foreign capitalist acquires a definite pecuniary concession such as a bounty, and

(2) where he acquires a concession which will enable him to exploit a wasting asset, such as a mineral concession.

28. In the case of bounties or similar definite pecuniary assistance, we consider that restrictions might be imposed of the nature described in Section 5 of the Steel Industry Protection Act of 1924, namely,—

(1) in all cases facilities for the technical training of apprentices, and

(2) in the case of incorporated companies—

(*i*) that the companies should be registered under the Indian Companies Act of 1913 with rupee capital, and

(*ii*) that a reasonable proportion of the directorate should be Indian.

29. The requirement that a proportion of the directorate should be Indian is an exception to our general conclusion that share-holders should be given unfettered power to choose their own directorate. It

might seem more logical to insist on a certain proportion of Indian share-holders, but as we have shown we do not consider it desirable or practicable to impose any conditions to secure this. It might also be held that the interests of the nation would be sufficiently secured if the companies were registered in India under the Indian Companies Act with rupee capital, as this will mean that the shares will be offered for subscription in the first instance in India and that the great majority of the transactions will be effected in Indian stock exchanges. We do not however think that the theoretical objections to the proposal are sufficient to justify our recommending a reversal of the declared policy of the Government of India and the Legislature, and insistence on a certain proportion of the directorate being Indian is a rough and ready practical method of ensuring that Indian interests will not be over-looked. But we would not go beyond the conditions suggested by both the Fiscal Commission and the minute of dissent to it that the number of directors and the facilities for training should be reasonable. They would have to vary from case to case, depending on the nature of the work and the extent of the concession granted by Government. It would be unreasonable to impose any definite proportion and the details will have to be left to the discretion of Government in each case.

30. As regards mining and similar concessions we are of opinion that no definite principle can be prescribed. It must be decided in each case whether it is better from the point of view of the national interest that a concession should be developed by external capital or left to lie fallow, supposing that to be the only available alternative. In the latter case the loss of interest and wealth to the country through the locking up of potential resources must be considered. It must also be remembered that *primâ facie* the best market for the produce will be local. Such enterprises are by no means invariably successful. They are generally highly speculative and there are as many losses as successes. It is to the interest of the country that its natural resources should be prospected and if external capital is willing to undertake this task, while indigenous capital is unwilling, it must be allowed to set the prospect of profits against the risk of loss. We consider that this is a matter which must be dealt with by the expert departments concerned, either of the provincial or the central Governments, the general criterion being that concessions should only be granted to external concerns where it is clearly in the national interest that they should be developed and where internal capital is not forthcoming on reasonable terms, and then only subject to such safeguards as may be suitable for each case.

PART III.

Summary of Recommendations.

The conclusions which we have reached may be summarized in the following propositions.

I. It is more advantageous to India that its requirements for new capital should be supplied from internal rather than from external sources, so far as internal capital is forthcoming. The real solution of the problem of external capital lies in the development of India's own capital resources.

II. Subject to the limitations given below the inflow of external capital is not only unobjectionable in itself but is a valuable factor in assisting the economic development of India.

III. Though in certain circumstances the control of external capital may be necessary in the interests of India, general measures discriminating against it or penalising it either by way of taxation or by way of control would, so far from assisting the development of these resources or fostering the interests of the Indian investor, be definitely injurious to both, as they would impede the growth of new industries and restrict the transferability and consequently the market value of the holdings of the Indian investor.

IV. India possesses a vast store of dormant capital awaiting development, and in order to make this available for investment banking facilities must be increased and extended. The examination of the various technical measures suggested in the replies with this object is outside the scope of the Committee, but we would emphasize the importance of a co-ordinated survey being undertaken at the earliest opportunity of the whole field of banking in India. This should be followed by a detailed examination by an expert committee or committees of the lines along which progress should be effected.

V. As regards the control of external capital, where the external capitalist is merely entitled to a stipulated rate of interest, and only acquires rights of control when there is default, as in the case of state and municipal loans, bonds and debentures of companies, and bank loans, we do not consider any measures of control necessary, but in the case of Government and quasi-Government loans, the rate of interest should not be the sole consideration in placing such loans and, other things being equal, preference should be granted to the Indian investor.

VI. Where investment carries with it the control of an undertaking, we consider it reasonable that when Government grants particular concessions to the industry of which that undertaking forms part it should exercise such control over the undertaking as will ensure that the benefits of the concession accrue primarily to the country.

(a) Where the concession is general, as in the case of a protective tariff (and this would include practically every industry in India, as a revenue tariff without a corresponding excise has a protective effect) it is

impracticable to effect any discrimination. No feasible suggestions for such discrimination have been suggested to us, nor have any occurred to us during our discussions.

(b) Where definite pecuniary assistance, such as a bounty, is granted to any particular undertaking, we consider that discrimination is feasible, and we agree with the Fiscal Commission and the Legislature that no such assistance should be granted to any company, firm or person not already engaged in that industry in India unless

I. reasonable facilities are granted for the training of Indians, and

II. in the case of a public company unless

(i) it has been formed and registered under the Indian Companies Act 1913,

(ii) it has a share capital the amount of which is expressed in the memorandum of association in rupees,

(iii) such proportion of the directors as Government may prescribe consists of Indians.

(c) Where a concession is granted to exploit a wasting asset, such as a mineral concession, no definite rules can be prescribed. It must be a question in each case whether it is better from the point of view of the national interest that a concession should be developed by external capital or left until indigenous capital may be prepared to develop it. Such concessions should only be granted to external capitalists when it is clearly in the national interest that they should be developed.

VII. We do not consider it necessary to examine in detail the measures to be taken to give effect to these recommendations as we do not suppose that any general legislation will be necessary. If Government accept them, the necessary legislative and executive steps can be taken to give effect to them on each occasion when a bounty or similar concession is granted.

BASIL P. BLACKETT.
C. B. CHARTRES.
W. CURRIE.
*T. C. GOSWAMI.
C. A. INNES.
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DWARKANATH MITTER.
G. A. NATESAN.

J. B. TAYLOR,
Secretary.
16th September, 1925.

* Subject to separate note

NOTE OF DISSENT BY PANDIT MADAN MOHAN MALAVIYA

In the course of the discussions on the Steel Industry Protection Bill the Honourable Sir Charles Innes said :—" The House will remember that yesterday, in the course of the debate, Government were pressed to incorporate in the Bill provisions on the lines of paragraph 292 of the Fiscal Commission's Report and on the lines of the statement of policy made by the Honourable Mr. Chatterjee in the House on the 2nd of March, 1922. I explained yesterday our reasons why we were reluctant to import matter of this kind into the Bill. But we have considered the matter again. We recognise that this is a matter on which the House feels strongly, and we have decided to do our best to meet the wishes of the House. In order to meet the House half-way, I am prepared to agree to the amendment of which the Honourable Pandit Motilal Nehru has given notice, and I hope the House will observe that this amendment honours strictly the obligation laid upon Government by the statement of Mr. Chatterjee." That amendment which now forms section 5 of the Steel Industry Protection Act was as follows :—

" Notwithstanding anything contained in section 3 or section 4, no bounty in respect of steel rails, fish-plates or wagons shall be payable to or on behalf of any company, firm or other person not already engaged at the commencement of this Act in the business of manufacturing any one or other of such articles, unless such company, firm or person provides facilities to the satisfaction of the Governor-General-in-Council for the technical training of Indians in the manufacturing processes involved in the business and, in the case of a company, unless—

(*a*) it has been formed and registered under the Indian Companies Act, 1913 ; and

(*b*) it has a share capital the amount of which is expressed in the memorandum of association in rupees ; and

(*c*) such proportion of the directors as the Governor-General in Council has by general or special order prescribed in this behalf consists of Indians."

Both the Government and the Legislature definitely adopted the policy embodied in the amendment when they agreed to it. But there was one important point left outstanding for consideration. So the Honourable Sir Charles Innes went on to say :—" I am aware that there are sections in the House which would like to incorporate in the Bill specific provisions regarding the proportion of foreign capital. I am prepared to take up separately the examination of questions of that kind and in that examination I am prepared to associate with the Government a Committee of the Legislature appointed *ad hoc* for the purpose." It is in fulfilment of this promise that the present Committee was appointed. The main question therefore which this Committee had to consider was what measures, if any, should be adopted to ensure that in every public company which may be incorporated in India in the future a certain proportion of capital shall be Indian. My colleagues have come to the conclusion that

"except when definite concessions are granted to individual concerns, restrictive measures would be either impracticable or disproportionately injurious to the Indian investor." They go on to say :—" Where a bounty or definite concession is being granted to a particular company it is certainly practicable to impose any restrictions desired in return for the concession, but where a general tariff is imposed and any concern operating in the country will derive benefit from it without the necessity of approaching Government for any special concession at all, no practicable method has been suggested to us whereby discrimination could be effected. Numerous suggestions have been made to us. The most general is that new companies should be registered in India with rupee capital, and that a proportion of the shares sufficient to establish Indian control should be definitely reserved to Indian investors. A less extreme suggestion is that this proportion should be reserved to Indian subscribers in new flotations for a definite period of time. If after that period Indians have not subscribed their share the company would be enabled to acquire the remaining capital where it could." My colleagues give three reasons for not accepting either of these suggestions. In para. 22 of their report they say :—" In the first place, they could only be applied to new companies, and it might in many cases be difficult to prevent a big manufacturing concern with a small trading agency in the country, taking advantage of such an agency to claim the privileges of an existing company." I regret I do not agree. This difficulty is not likely to arise in many cases. It might arise in some and it can be provided against. The present capital of every existing public company is known. The conditions that may be laid down to secure a fair proportion of the shares to Indians can be made to apply to the additional capital which the company may wish to raise. My colleagues go on to say :—" Besides, as pointed out by the Fiscal Commission, a most unfair and undesirable distinction would be created between private and joint-stock concerns and it is to the interest of the country to develop the latter." I do not believe that if restrictions like those suggested are imposed, any considerable number of concerns are likely to be started as private concerns. There is little likelihood of individual firms providing the whole capital needed. I am not satisfied that in the great majority of cases there will be any real difficulty in carrying out the suggestions mentioned above, and I am clearly of opinion that they can and should be given effect to.

So long as the policy of free trade was followed by the Government of this country, matters stood on a very different footing from that on which they do now. As a policy of protection of industries by tariffs and bounties has now been adopted, the Government is bound in fairness to the general consumer to see that the industries which shall benefit by such tariffs are either wholly or at least largely Indian, both in the matter of capital and control. The very foundation of protectionism, as has been said by eminent economists, is the idea of nationality. In the words of Professor Bastable " to understand the position taken up by the modern opponents of free trade, it is, above all, essential to recognise that the keynote of their system is nationality..... The claims of the nation as a whole are accentuated and regarded as far more important than those of the

individual or the world at large. How perfectly this attitude harmonises with the actual policy of the European, and indeed of all protectionist states, is apparent. A particular industry is suffering under the pressure of foreign competition, *i.e.*, a national interest is affected. The State then steps in by imposing additional duties on the foreign product, the loss to individual consumers and to the world as a whole being disregarded as unimportant." Again protection is justified because it increases the national capacity to produce. "Complete commercial freedom may give the greatest amount of value at a given time, but a wise restrictive policy will increase the production of wealth in the future; present loss will in this way be more than recompensed by subsequent gain. The use of protection is substantially a *national* apprenticeship and should be judged in that light."

When we Indians asked for protection we did so in order to promote Indian enterprises with Indian capital and under Indian control. The Government of India understood us correctly and agreed with us. Speaking in 1916 on the resolution which led to the appointment of the Industrial Commission, Sir William Clarke, the then Member of Commerce, said: "The building up of industries where the capital, control and management should be in the hands of Indians is the special object we all have in view." He deprecated the taking of any steps which might "merely mean that the manufacturer who now competes with you from a distance would transfer his activities to India and compete with you within your own boundaries." In concluding my note appended to the report of the Industrial Commission I said: "I cannot conclude this note better than by endorsing the following generous and wise words of Sir Frederick Nicholson: 'I beg to record my strong opinion that in the matter of Indian industries we are bound to consider Indian interests firstly, secondly and thirdly. I mean by 'firstly' that the local raw products should be utilised; by 'secondly' that industries should be introduced; and by 'thirdly', that the profits of such industry should remain in the country." We did not ask for the introduction of productive duties in order to benefit foreigners, nor did the majority of the Indian Members of the Fiscal Commission recommend that such duties should be introduced for the benefit of foreigners. The following paragraph from the minute of dissent of the minority of the Commission is important: "There is one aspect of the question to which attention must be drawn. If our colleagues' recommendation is accepted it will be open to every foreigner to establish manufacturing industries in India by means of companies incorporated in their own countries and in their own currency. This danger did not exist under a policy of free trade, but it is bound to materialise when the benefit of protective duties becomes available. We may have under such circumstances companies incorporated elsewhere, say in America in dollars, in France in francs, in Italy in liras, in Germany in marks, in Japan in yens and in China in dollars, etc. *It will be also possible for these companies to obtain their whole capital in their own countries and thus carry away the entire profit of manufacturing industries established behind the tariff wall. The consumer will have paid a higher price, due to protective duties, and the entire manufacturing profit will have gone out of the country.* We cannot obviously understand how under

such conditions "the main and ultimate end, *viz.*, the enrichment of the country will be attained." (Paragraph 293). *We would venture to assert that India cannot possibly be expected to adopt a policy which is likely to lead to such a result.*" Further on they said : "We believe there will be no difference of opinion on the point that *Indian capital should have full scope for investment in Indian industries, and that foreign capital should only supplement it to accellerate the pace and to provide the early relief of the burden on the consumer.* We do not apprehend any danger of the kind indicated in the report, *viz.*, that such a policy will lead to the formation of private companies. There is in our opinion very little likelihood of individual firms providing the whole capital themselves by registering private companies. If however such a contingency arises it can only mean that the profit of the enterprise is expected to be so substantial that the promoters desire to keep the whole of it to themselves and carry it away to their own countries. If such a danger materialises and foreign firms resort to such expedients, we think that the Government of India should by means of legislation or otherwise take steps to put a stop to it. *No foreign country should be allowed to monopolise the profits due to the policy of protection in India and at the cost of the Indian consumers.*" In order that this object should be achieved, it is not only necessary that a reasonable proportion of the directors of every new company which may be formed hereafter in India should be Indians, but also that at least half of the share-capital should be reserved to Indian subscribers for a definite period of time. If after that period Indians have not subscribed their share, the company should be free to acquire the remaining capital where it could. In support of my view I would also refer to the English Overseas Trade (Credits and Insurance) Act, 1920. In that Act it was definitely—"Provided that no credit shall be granted by the Board (to be constituted under the Act)

(*ii*) to an alien, or to a firm in which the majority of the partners are aliens, or to a company where British subjects do not form a majority of the directors, or where a majority of the voting power is not in the hands of British subjects."

I also wish to emphasise that the adoption of a policy of protection of industries by tariffs and bounties more than ever makes it the bounden duty of Government that it should provide sufficient banking and credit facilities to Indians and encourage them to build up indigenous industries. In this connection I particularly invite attention to the valuable opinion of Sir Dinshaw Wacha contained in paragraph 6 of his letter which I quote below :—

"Measures essential to attract indigenous capital for development of banking organisation and credit facilities in India may be devised in the following ways :—

(*a*) By institution of as many banking institutions as may be deemed necessary from time to time on a sure and sound foundation. For such a purpose it will be imperative to introduce *special legislation* regarding borrowing and lending of a character which while sufficiently elastic shall fully safeguard the interests of

depositors and shareholders alike, thus inspiring the highest confidence among them.

(b) Beyond such local banking concerns, as just suggested, it is exceedingly desirable that there should be in the important capitals of the different provinces, which have extensive trade and industries, banks with a capital at least of 5 crores of the type and nature of the German Deutsche Bank which, it is superfluous to state, has immensely converted Germany from an agricultural into an industrial country. Banks of this character alone, in the long run, when established on sound foundations, managed by recognised experts in different branches of industry, will be able to give similar results to India as those afforded to Germany. Simultaneously, it is also essential that India should possess agricultural banks, with their kindred auxiliaries or feeders in each province of the Empire, say, with a capital ranging from 2 to 5 crores at the outset. Such banks should be modelled broadly on the lines of the Agricultural Bank of Egypt, so beneficially fostered by the late Earl Cromer. Of course, the local conditions of each province will have to be taken into consideration. Co-operative Central Banks may serve the useful purpose of fertilisers to each Agricultural Bank.''

Dr. Gilbert Slater also has in his valuable note recommended among other things, the "development of Indian joint-stock banking by the adoption of methods similar to those employed in Germany by the 'D. Banks',—the Deutsche, Dresdner and Disconto Gesselschaft."

The development of banking organisation and credit facilities is the most crying need of India. In the third edition of his valuable book on Indian Finance and Banking, which was published in 1920, Mr. G. Findlay Shirras correctly described the system of banking existing in India. A glance at the chart published in the frontispiece of his book would show how deplorably low the banking position in India was in comparison with that in Canada, Australia, Japan, the United Kingdom and the United States. To notice the differences in the case of one alone, while the banking capital amounted in 1920 in India to only £28 million (including the capital of Exchange Banks which do business elsewhere), that in Japan was £67 million. The deposits (Banks and Savings Banks) amounted in India to £118 million, in Japan to £404 million. The number of banks in India was 359, in Japan 5,874. I am unable to say what differences the last five years have made. But the position of India has not much improved and is still lamentably low, and this is not the first time that the attention of the Government is being drawn to the need of having the question of the proper development of banking institutions in India duly investigated. But unfortunately the action that was needed has not yet been taken. I hope our recommendations on this subject will meet with a better fate. To strengthen that hope I will draw attention to some of the recommendations which were

previously made. Before doing so, I wish to add that notwithstanding the creation of the Imperial Bank of India with its enhanced capacity and usefulness, the question of a State Bank for India still deserves to be considered.

As Mr. Shirras has pointed out in his book, in 1870 a member of the Viceroy's Executive Council (Mr. Ellis) wrote in connection with the proposal for an amalgamation of the Presidency Banks :—" The change which I advocate as the best is the establishment of one State bank for India with branches at the Presidency towns. I do not by this contemplate the creation of an expanded Bank of Bengal. I believe the Bank of France would provide a model which, with suitable modifications, might be adopted in India."

In an article on " A State Bank for India," *The Times* wrote in March 1913 : " There can be no question that a State bank would have a most salutary effect in securing the confidence of the people with money to invest. India suffers from a vast amount of infructuous capital which a State bank would be likely to draw forth in the shape of shares or deposits. Hitherto, the investment of money by deposit in banks has been on a much smaller scale than it ought to be...... Another great advantage would be a far better utilisation of the capital of the concern than is possible in the case of the three Presidency banks with their existing limitations. The central institution would have branches in every part of India, and would be able to let the capital flow in the directions where it was most needed. The facilities it would have for financing trade would go far to eliminate the sharp seasonal divergences between discount rates in India. Given a State Bank with large capital and plenty of resources, the Government could again keep its headquarters balances in bank custody without any apprehension of monetary disturbances in consequence of withdrawals, and on the other hand, it would be able to depend on the bank to advance money if the needs of the State momentarily required the assistance."

The Chamberlain Commission said in their Report in 1914 that they regarded " the question, whatever decision may ultimately be arrived at upon it, as one of great importance to India, which deserves the careful and early consideration of the Secretary of State and of the Government of India. We think, therefore, that they would do well to hold an enquiry into it without delay, and to appoint for this purpose a small expert body, representative both of official and non-official experience, with directions to study the whole question in India in consultation with the persons and bodies primarily interested, such as the Presidency Banks, and either to pronounce definitely against the desirability of the establishment of a State or Central bank in India at the present time, or to submit to the authorities a concrete scheme for the establishment of such a bank fully worked out in all its details and capable of immediate application."

In 1918 the Indian Industrial Commission recommended " the appointment at the earliest possible date of an expert Committee to consider what additional banking facilities are necessary for the

initial and for the current finance of industries; what form of Government assistance or control will be required to ensure their extension on sound lines as widely as possible throughout the country; and whether they would be of provincial or of imperial scope, or whether both these forms might not be combined in a group of institutions working together."

In March 1919, a resolution was brought forward by the Hon'ble Mr. Sarma in the Legislative Council urging the appointment of a committee to recommend the measures required for organising and developing the banking system of the country. The then Finance Member (Sir James Meston) said the Government was prepared to accept the recommendation of the Industrial Commission and to act upon it. As regards a State Bank, he said he must leave the question "for the present," on the ground that the hands of Government were full with questions relating to the reforms. But no action has been taken in respect of either the one or the other.

It is a matter for real regret that notwithstanding the weighty recommendations referred to above, this question has not yet received from Government the attention which it so obviously deserves. Nothing more vitally affects the welfare of the people of India than the question of the healthy growth and expansion of national commerce and industries, and nothing is more urgently needed to make that growth possible and to sustain it than a sound system of national banking and finance, which should take note of and provide for the financial needs of the people in all important branches of their commercial and industrial existence. I earnestly hope that as this committee has the advantage of being presided over by the Finance Member, and of having the Member of Commerce also on it, its recommendations on the subject of banking will receive the early attention of Government, and that a committee, so composed that it might command the confidence of the public, will be soon constituted to deal with this most important question.

MADAN MOHAN MALAVIYA.

15th September 1925.

NOTE BY Mr. T. C. GOSWAMI, M.L.A.

Generally speaking, I agree wih the propositions as stated in the Report. I was elected to the Committee on the resignation of the Honourable Mr. Patel, after the questionnaire had been framed and answers to it had been received by the Committee. I found that the terms of reference as interpreted—which I was bound to accept—practically excluded any form of first-hand inquiry as to the extent that foreign capital has a hold on India, as to how far such a hold has benefited India and as to how far it has been injurious. We were, therefore, reduced to a more or less theoretical formulation of propositions relating to the uses and control of external capital in India.

2. We have, however, made some important proposals and indicated lines on which thorough inquiry is desirable. We all agreed—and some of us urged very strongly—that an inquiry into the existing banking system should be undertaken with a view to arriving at definite conclusions as to how Indian credit can be further developed and facilities for investment improved. I desire to emphasise this suggestion.

It is said in the Report, that "Considerable progress has been effected by the creation of the Imperial Bank and the opening of new branches" (paragraph 9). While I do not controvert the statement as such, I should like to express the common belief—for which I know there is good foundation in actual facts—that racial and political discrimination is made in the matter of credit, and that Indians usually do not receive in matters of credit the treatment that their assets entitle them to, while, on the other hand, British business-men have frequently been allowed larger credit than what on ordinary business principles they ought to have got. This is a matter for inquiry. Whether this state of things can be altogether remedied in the present political position of India is, however, a difficult question to answer.

3. With regard to leases *already granted* by Government, whether of mines or of forests, it is necessary for the public to know the details of each transaction. Leases have been granted at ridiculously low rents, which cannot be explained away by the plausible theory of development and of the risks of enterprise. There are cases in Assam, for instance, which require examination. I go further; not only would such an inquiry indicate steps that may be taken in the future to safeguard India's interests, it would, perhaps, reveal cases where the sanctity of existing contract is flagrantly vitiated *ab initio* by unconcionable favouritism.

4. My esteemed colleague, Pandit Madan Mohan Malaviya, has appended a Note to the Report suggesting that it should be a condition in all cases in which shares are offered by public Companies of India, that the subscription lists should be open for a minimum period and that preference should be given to Indian subscribers up to 50 per cent. of the amount of shares offered. The argument that this would be an illusory protection, since shares can subsequently change hands and *benami* transactions are to a large extent unavoidable, has great

force ; and Panditji recognises this. I agree with Panditji that the effect of his proposition cannot be totally neutralised by these devices. But I do not know if what Panditji suggests is the best mode of securing the object which some (at any rate) of the Members of the Committee have at heart. I confess, however, that so far I am unable to suggest an alternative.

T. C. GOSWAMI.

The 14th September 1925.

The foregoing note was received from Mr. Goswami after the report of the Committee had been signed by all the other members and was ready for publication, and only awaited his signature which had been promised by telegram as he had left Simla before the final proof was ready. At the last meeting of the Committee the Report was agreed to unanimously by all the members subject to some verbal corrections and to the additional note appended by our colleague Pandit Madan Mohan Malaviya. No mention was then made by Mr. Goswami of his desire to append any note. Mr. Goswami attended all the meetings of the Committee except the first at which the questionnaire was discussed. At no time during those meetings did he raise any question as to the interpretation of the term of reference, or make any mention whatsoever of his present allegations regarding racial and political discrimination in the granting of credit and favouritism in the granting of leases.

This explanation, which seems necessary in fairness to the Committee as a whole, is added by me after consulting with those members who are still in Simla (*viz.*, Sir Charles Innes, Sir Sivaswami Iyer, Pandit Madan Mohan Malaviya, Dr. Dwarkanath Mitter, Mr. Natesan and Mr. Chartres).

BASIL P. BLACKETT.

The 19th September 1925.

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APPENDIX.

List of Associations and Individuals who replied to the Questionnaire.

The Burma Chamber of Commerce, Rangoon.
The Karachi Chamber of Commerce.
The Bengal Chamber of Commerce.
The Indian Merchants' Chamber, Bombay.
The Northern India Chamber of Commerce.
The Marwari Chamber of Commerce.
The Chamber of Commerce, Bombay.
The Bengal National Chamber of Commerce.
The Upper India Chamber of Commerce.
The Marwari Association, Calcutta.
The East India Cotton Association, Limited, Bombay.
The Millowners' Association, Bombay.
The British Indian Association, Calcutta.
The Bombay Native Piece-goods Merchants' Association.
The Indian Association, Calcutta.
The Fiscal Reform League, India.
The Bombay Stock Exchange, Limited.
The Port Commissioners, Calcutta.
The Port Commissioners, Rangoon.
The Port Commissioners, Chittagong.
The Madras Port Trust.
The Calcutta Improvement Trust.
The Bombay Improvement Trust.
The Bombay Port Trust.
The Bihar and Orissa Co-operative Bank, Limited, Patna.
Dawsons' Bank, Limited, Pyapon.
The Karnani Industrial Bank, Limited, Calcutta.
Sir Dinshaw Wacha, Kt., Bombay.
Professor H. Stanley Jevons, University of Rangoon, Economics Department.
Raja Reshee Case Law, C.I.E., Calcutta.
M. M. Roy, Esquire, M.Sc., Government Commercial Institute, Calcutta.
Dr. Gilbert Slater, Oxford.
Sir P. C. Mitter, Kt., C.I.E., Calcutta.
Professor K. T. Shah, Professor of Economics, Bombay University.
H. Sinha, Esquire, Lecturer, Calcutta University.
J. C. Sinha, Esquire, Economics and Politics Department, Dacca University.
B. F. Madon, Esquire, Bombay.
Biharilal Batra, Esquire, Lahore
S. W. Haji, Esquire, Delhi.
H. L. Chablani, Esquire, M.A., Economics Department, Delhi University.
B. Mukerji, Esquire, M.A., Editor, United Provinces Co-operative Journal.
B. Ramchandra Rau, Esquire, Calcutta.

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